

Economy and State in Fiji before and after the Coups

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This paper is a revision and update of an earlier article on the economic consequences of the 1987 military coups d'état in Fiji (Knapman 1988a). Its purpose is to explain what has happened against a background analysis of postindependence development, and to predict what is likely to happen. It is not prescriptive, but it does comment on the universalist, promarket, antistate analysis and policy recommendations in two recent books on the Fiji economy (Cole and Hughes 1988; Kasper, Bennett, and Blandy 1988). The conclusion is that Fiji probably faces a future of economic stagnation.

DEVELOPMENT ISSUES AND PERFORMANCE 1970–1986

In 1874, at the beginning of the colonial period, Fiji's largely self-sufficient subsistence economy supported a population of about 140,000 Fijians who tolerated a shaky frontier economy of less than 2000 white settlers and traders. By 1970, at the end of the colonial period, Fiji had an export economy supporting a population of 480,000. Of these, 200,000 were indigenous land-owning Fijians, 76 percent of whom lived in rural villages and retained a significant commitment to subsistence agriculture and neo-traditional society. Another 240,000 were Indians, 61 percent of whom lived in rural areas: they were predominantly Fiji-born (therefore "Indo-Fijian"), grew the principal export crop (sugarcane) on leased land, and were prominent in small-scale commercial and service enterprises. The remaining, almost entirely urban, population consisted of Europeans and Chinese who dominated the management of largely foreign-owned big business in the manufacturing (mainly sugar milling), banking, trade, and tourism sectors (Knapman 1987, 1; CES, July 1988; Fisk 1970, 36–42).

The average income of the population was high by poor-country standards because of high sugar and subsistence-sector productivity levels, but it concealed important disparities. Urban income per person was roughly double rural income per person; consistent with the ethnic pattern of economic activity, surveys of income tax returns suggested that Fijians earned 60 percent of average income, whereas Indo-Fijians received 80 percent, Chinese 115 percent, and Europeans 140 percent (Fiji CPO 1970, 12). There were rich Indo-Fijians and Fijians, but the conspicuous fact remained that the involvement of Fijians in the modern economy was not commensurate with their political power. From the outset, the new nation's policymakers and planners had to confront a growth-distribution conflict with a potentially problematic ethnic dimension. Growth in the modern sector was necessary in order to provide jobs and meet the aspirations of a population that had been increasing at over 3 percent annually (CES, July 1988); but the faster that growth, the more the neotraditional sector would lag behind in relative terms, and the greater the risk of envy and unrest. One observer identified the distribution rather than the size of national income as "the most vital and urgent problem" confronting Fiji, and advocated government intervention aimed at accelerating Fijian participation in the modern sector, even if some growth had to be sacrificed (Fisk 1970, 1, 62).

Reduction of income disparities was specified as "perhaps the most important single objective" of the first postindependence five-year development plan (Fiji CPO 1970, 19). The disparities were seen in urban-rural rather than explicitly ethnic terms but, contrary to statements by Cole and Hughes (1988, 3), some policy action aimed specifically at promoting greater Fijian involvement in the cash economy was undertaken. A National Marketing Authority was set up in 1971, the Fijian Affairs Board made loans available to established Fijian sugarcane farmers, half the sugarcane farmers participating in the Seaqaqa settlement scheme were to be Fijians, a western Viti Levu pine scheme was initiated, 50 percent of tertiary scholarships were reserved for Fijians, and in 1975 a Business Opportunity and Management Advisory Services Scheme was established to facilitate loan applications to the Fiji Development Bank and to assist the relatively few Fijians established in the business community (Lasaqa 1984, 89, 100, 117-118, 124, 139). However limited in its range and effectiveness this action may appear in retrospect, it was not inconsequential. Perhaps of greater importance to the evolving political economy of Fiji, it was matched by an Alliance government policy of ethnic balance in the public

sector (Lal 1988, 14). These policies were to supplement the (more significant) impact of growth itself on Fijians' opportunities and responses in the modern sector.

From a different perspective, Fijians faced a development dilemma. Beyond the point of discretionary and supplementary involvement in the cash economy, the "path of money" and the "way of the land" went in different directions (Knapman and Walter 1980). Thrift and acquisitiveness were recognized as "essential components of Fijian progress in the modern world," yet were also seen as a threat to the chiefly system that was the backbone of the communal, sharing neotraditional society (Lasaqa 1984, 33). This society in turn, aside from being valued in its own right, was seen as the only protection against a perceived threat of Indo-Fijian domination (Nayacakalou 1975, 138).

How, then, were the demands of modernity and tradition or protection to be reconciled? At the ideological level, the answer had been simply to deny that there was a conflict: individualism could be grafted onto the traditional culture. For Nayacakalou though, Fijians could not "change and preserve the same thing at the same time. . . . The belief that they can do both simultaneously is a monstrous nonsense" (1975, 135). He went on to note, portentously in view of Rabuka's successful appeal to traditional values and culture in 1987, that the belief would be hard to eradicate, but that there were already suggestions from some Fijians that the ideology served only to maintain the chiefs' positions of privilege. These suggestions referred to the response to the question of how to reconcile the conflicting demands, namely that a colonially constituted chiefly ruling group of politicians and bureaucrats would do their duty, that is, "mediate for the people of the land, and shield them from capitalist economic forces and relations" (Kaplan 1988, 104). This did not preclude so much as encourage the use of the power of the state to influence the allocation of resources and the distribution of economic opportunities in favor of (some) Fijians. Nor did it preclude the contemplation of stronger intervention to elevate Fijians in the nation's commercial life: "Perhaps certain areas of commercial activity ought to be reserved for Fijians" (Lasaqa 1984, 139).

In the event, and whatever the concerns over distribution, the first plan set an ambitious target of 6.7 percent average annual real growth in gross domestic product (GDP) for 1971-1975—and came close to achieving it. The actual rate was 5.9 percent; and, because declining fertility and

Table 1. Growth and Inflation in Fiji, 1970-1988

Year	Gross domestic product		Inflation %
	%	Per person %	
1971	6.0	3.6	6.5
1972	7.9	5.7	9.1
1973	12.7	10.3	11.2
1974	2.6	1.0	14.4
1975	.1	-1.8	13.1
1976	2.7	1.1	11.2
1977	4.4	2.6	7.3
1978	1.8	0.0	6.1
1979	12.0	9.6	8.3
1980	-1.7	-3.7	14.5
1981	6.0	3.9	11.2
1982	-1.1	-2.9	7.0
1983	-4.0	-5.9	6.8
1984	8.4	6.2	5.3
1985	-4.6	-6.2	4.4
1986	8.8	6.2	1.8
1987	-7.8*	-8.4*	9.5
1988	-2.5*	-4.0*	11.0†

Sources: *Current Economic Statistics*, July 1988; Browne and Scott 1989, 49; Fiji Central Planning Office 1975, 1985; *Pacific Islands Monthly*, January 1989.

Notes: *Official provisional estimates.

†Annual rate at July 1988.

largely Indo-Fijian emigration had caused population growth to decline to less than 2 percent annually, growth in income per person reached 4 percent (Table 1). This success was primarily due to the continued, foreign-financed expansion of tourism and the associated construction boom in 1971-1973, which were slowed by the 1974-75 world recession. The reces-

sion's impact on the balance of payments was mitigated by a very rapid rise in sugar export prices; but the 1973-74 oil-price hike gave an energy-cost push to an inflation rate that had begun accelerating earlier because of worldwide inflation, domestic credit expansion, domestic food price rises due to a 1972 hurricane, and defensive money wage increases (Table 1).

A prices and incomes policy in force from April 1973 to March 1975 may have dampened inflationary pressures temporarily, but failed to cause a fundamental downward revision of the inflation rate expected by organized labor, and failed to prevent the consequent increases in money wage rates (Fiji CPO 1975, 35-36). Those increases were so substantial as to lead to a *real* wage and salary rate rise averaging 5.2 percent annually from 1971 to 1975 (Bienefeld 1984, 221). Notably, the nominal average salary of civil servants almost trebled during a period when the consumer price index increased 67 percent (World Bank 1977, 41, Table 7.3). Unemployment therefore rose, and the gap between urban and rural incomes widened, stimulating substantial migration from cane-cutting areas and the eastern islands coconut economy. Importantly, the proportion of Fijians living in urban areas in 1976 had risen to 30 percent—from 24 percent in 1966 and 11 percent in 1956 (Ward 1987, 35).

The second postindependence development plan (1976-1980) reaffirmed a commitment to growth with redistribution, conveying complacency in the statement that "Over the last ten years it has been discovered that aggregate economic growth *per se* is not difficult to achieve" (Fiji CPO 1975, 5), and setting a correspondingly ambitious real GDP growth target of 7.3 percent annually. The actual rate turned out to be 3.5 percent which, with the annual population growth rate at about two percent, translated into 1.5 percent per person (Table 1). Sugar production expanded strongly because of improved yields and public investment in a one-third extension of the cultivated area. Consequently, although the export price fell 29 percent in 1976, remained low in the following three years, and in 1980 was still just below its 1975 level, the value of sugar exports grew at an annual average of 16 percent (Browne and Scott 1989, 40, 56). The government sector expanded rapidly too, with public investment in forestry, fisheries, and hydroelectricity as well as sugar, and continued growth in current spending (responsibly financed out of taxation revenue). But tourist arrivals increased at only 3.3 percent per year instead

of the predicted 10 percent, with obvious implications for associated growth rates in the building and construction, transport, wholesale and retail trade, finance and real estate sectors (*CES*, July 1981).

Also worrying, especially in view of the early seventies experience, was the impact of the 1978–79 oil price on an inflation rate that had been brought down between 1975 and 1978 by exemplary macroeconomic management (Table 1; Cole and Hughes 1988, 8–16). Steps taken included the use of a Tripartite Forum made up of government, employers, and unions to set wage guidelines that kept nominal wage rate increases tied to past—declining—inflation rates (Browne and Scott 1989, 40–41). Real wages and salaries increased at an annual average rate of 1.3 percent, just below the rate for GDP per person (Bienefeld 1984, 221).

With regard to income distribution, relative rural incomes rose because of growth in the sugar sector and urban wage restraint. The publicly owned Fiji Sugar Corporation had taken over from the Australian-owned Colonial Sugar Refining Company monopoly in 1973; organized an expansion in which Fijians had a major involvement through Seaqqa, and which absorbed 40 percent of new entrants to the labor market in the period 1976 to 1980; and presided over an increase in the growers' share of sugar income from the 58 percent of the sixties to 71 percent (Brookfield 1987, 50–51). As a result of Fijians' participation at Seaqqa and a noteworthy increase in their share of salaried work, the gap between average incomes of Fijians and Indo-Fijians was closing in the late seventies (Bienefeld 1984, xxiii, 338). An ethnic dimension to the pattern of economic activity remained discernible, in tourism for example (Britton 1987, 85), and Fijians were still "seriously under-represented" in business, which was the preserve of expatriate Europeans and a small section of the Indo-Fijian community (Bienefeld 1984, xxiv, 343). Yet social differentiation by class rather than ethnicity was clearly a phenomenon of growing importance and, as Ward noted, was reinforced by developments in rural areas: "The spread of wage employment into rural areas, including native Fijian villages; the weakening of customary forms of labour organisation; the growing emphasis on private ownership; the emergence of greater income differentiation; and the likely restriction in opportunities in agriculture are all tending to increase the similarities in both Fijian and Indian communities" (1987, 44). While the skewed distribution of rents from communal lands and business involvement made some chiefs "very wealthy," 59 percent of the 1979 claimants for the destitutes' allowance introduced with

Indo-Fijians in mind were in fact Fijians, most of whom were in rural areas (Ward 1987, 43–44). There were 3000 of them in 1977, compared to 1500 in 1970, and none in 1959 (Lasaqa 1984, 29). More generally, limited data suggested that the distribution of personal income became more unequal, the share in national income of the poorest 10 percent of the population falling “considerably” in the late seventies (Fiji CPO 1985, 4). For these people, as for the nation, economic circumstances in the 1980s were to worsen.

The 1981–1985 development plan set a target of 4.7 percent annual average growth in real GDP, but only 0.9 percent was achieved. With population growing at around 2 percent, this meant an average yearly decline in real output per person of 1 percent (Table 1). The poor performance was very much the result of a combination of international recession with natural disasters. Fiji’s net barter terms of trade in 1985 were 26 percent down on the 1980 level, largely reflecting a decline in the sugar export price; hurricanes and drought in 1983 and 1985 caused serious declines in sugar production that coincided with falls in tourist arrivals. In consequence, Fiji’s capacity to import, as measured by its income terms of trade, fell 25 percent and forced the use in 1985 of the International Monetary Fund’s Compensatory Financing Facility for balance of payments support (Knapman 1988a, 167). Additionally, international real interest rates had reached historically unprecedented heights (Gordon 1987, 23), discouraging reinvestment of profits and new overseas borrowing by resident foreign business, and encouraging domestic capital outflow: private real investment, which accounted for just under half of all investment in 1981–1985, was down 22 percent on its 1980 level in 1985. The fall was compounded by a 51 percent drop in investment by public enterprises and government (calculated from data in Browne and Scott 1989, 47, 50, and Cole and Hughes 1988, 98).

The slump in public enterprise investment could be largely attributed to the lowered profitability caused by low sugar prices in the case of the Fiji Sugar Corporation, and rising fuel costs in the case of fishing and airline operations (Browne and Scott 1989, 42), though poor management may have made things worse, especially in the latter instance. The slump in investment by government itself was caused largely by domestic developments—specifically those in the politically difficult area of wages policy. The government’s outlay on wages and salaries more than doubled between 1980 and 1984 because of the effect on average earnings of continued indexation to inflation, wages drift due to automatic increments, pro-

motions and regradings of an aging public service, and pay increases won in 1983–84 by the public service union, which covered about one-third of workers in paid, formal sector employment (*ibid.*, 52; Bienefeld 1984, 324–333; Howard 1987, 115–117). With interest payments on the public debt also increasing rapidly, and revenue growth relatively sluggish, real public saving fell 69 percent, necessitating increased domestic borrowing and a cutback in the capital expenditure program, and threatening a squeeze on development-promoting operating expenditures in health, education, and agriculture.

Only the obtuse would deny that the increase in civil servants' average earnings during a period of recession shifted a disproportionately large share of the adjustment burden onto that half of the workforce which was not unionized, including rural workers and the unemployed. There was a clear trade-off between average earnings and employment in the public sector. The rise in earnings exacerbated balance of payments difficulties by making the creation of domestic credit necessary. Yet in retrospect, while a realignment of civil servants' real incomes with average national income was in order, the manner in which it was brought about, and the accompanying monetary contraction, were avoidably draconian. In the budget handed down in November 1984, a wage freeze was announced that signaled the government's effective abandonment of the Tripartite Forum and was to last throughout 1985; and the money supply (both M_1 and M_3) rose less than 3 percent in 1985 (RBF 1987a, 54; RBF 1988, Table 1). Much of the rationale for an overall freeze, as opposed to the Fiji Employment and Development Mission's recommended freezing of annual increments and continued award of salary increases within the Tripartite guidelines (Bienefeld 1984, 334), came from an IMF report that made an assertion repeated by Browne and Scott: "If wages had moved in line with real national income adjusted for the terms of trade during 1981–84, they would have been about 15 percent lower at the end of 1984" (1989, 43). But calculations from adjusted real GDP data in Cole and Hughes (1988, 139) show a 1 percent fall in total GDP during this period, which translates into a 9 percent fall in per capita income given annual population growth at 2 percent. And because there was a negligible difference between GDP and GNP growth rates (Cole and Hughes 1988, 99), the public sector wage adjustment needed was not as large as it appeared to be. Nonetheless, a "cold turkey," not a gradualist, contraction was put in place—and contributed to the largest negative growth rate since independence (Table 1).

The restrictive stance of macroeconomic policy also prompted the withdrawal of the Fiji Trades Union Congress from the Forum and provided a strong stimulant to the associated formation of a Fiji Labour Party by mid-1985 (Robertson and Tamanisau 1988, 24). In the following eighteen months this party drew growing support from disenchanted Indo-Fijian supporters of the National Federation Party and educated, urbanized Indo-Fijians and Fijians who saw the Alliance government as an eastern chiefly aristocracy in a patron-client relationship with some rich European and Indo-Fijian businessmen, essentially "neopatrimonial" in that it was "based on the personal domination of an individual leader, who uses the country's resources primarily as loot for rewarding his loyal followers" (Leys 1987, 45). In fact, an accountable Alliance government had accomplished a great deal more, with a longer-term view, and with the assistance of a more honest and efficient bureaucracy, than this perception might imply. But there is no doubt that the state, to paraphrase Beckman (1988, 27), had been penetrated by personalized relations based on communal and big-business ties, and that some opportunities for personal enrichment had been grasped and favoritism practiced (Robertson and Tamanisau 1988, 48-51; Scarr 1988, 43-48). The opportunities included those provided by the government's post-1975 interventionist microeconomic policies (Cole and Hughes 1988, 3-8), especially the attempted promotion of inherently monopolistic import-substituting industries through tariff protection and import licensing. These open the door to potential corruption, encouraging as they do rent-seeking behavior by big business at the expense of little business. Notable in this context was the garment industry, which attracted protection so high as to effectively more than double the price of competitive imports while continuing to exhibit antediluvian working conditions (Bienefeld 1984, 510; Robertson and Tamanisau 1988, 28). It was a major target of the Labour Party, which also alleged mismanagement of statutory corporations, including those aimed at accelerating Fijian involvement in the modern economy, and generally took advantage of the 1985 socioeconomic decline.

As it happened, international and reinforcing domestic developments aided—or ought to have aided—the stocks of the Alliance in 1986, at least insofar as the state of the economy was a determinant. An oil-price drop coupled with higher sugar and gold prices significantly improved Fiji's terms of trade; sugar production reached a record high that made full use of available milling capacity; tourism receipts were up as a record number

of visitors arrived; the inflation rate was down to 1.8 percent; and the balance of payments on current account moved into surplus, raising official reserves to six months' imports and permitting a repayment of the 1985 IMF loan (RBF 1987*a*, 14, 19). Public investment also rose substantially, implying heavy reliance on domestic borrowing since revenue and current expenditure were stagnant as a result of direct tax concessions and cuts in goods and services spending, respectively. The cuts offset the effects of a 2.25 percent wage rise, which was awarded on the basis of changes in the price level, real GDP, and the terms of trade (Browne and Scott 1989, 44, 47, 50-52; RBF 1987*a*, 54). Overall, real GDP was up 8.8 percent on the 1985 figure. The per capita figure was 6.2 percent (Table 1).

This growth only compensated for the arithmetically equal 1985 decline, and there were issues of ongoing concern. Aggregate real private investment remained stagnant, prompting an easing of monetary policy in late 1986 (Browne and Scott 1989, 47; RBF 1987*a*, 21). Open unemployment was running at 7.6 percent of the economically active population of 241,000. The rate for the 143,000-strong rural component was 4.6 percent, whereas the rate for the urban component was 11.9 percent. The respective figures for the major ethnic groups were 7.6, 3.5, and 15.7 percent for Fijians, and 7.6, 5.9, and 8.2 percent for Indo-Fijians (calculated from Fiji Bureau of Statistics 1988*b*, Table 17). Clearly, and crucially for political developments, the unemployment rate among the 33 percent of the Fijian population living in urban areas was almost double that of Indo-Fijians. Equally significant was the fact that 71 percent of Indo-Fijian urban unemployed, and 72 percent of Fijian urban unemployed, were in the 15-24 age group. Many of these young people were driven to begging and stealing and were also, in Lewis' vivid phrase, "the shock troops of political discontent" (Lewis 1966, 86). A major challenge for the rest of the twentieth century would be to find jobs for them before they became unemployable, as well as for the 6000-plus net increase in the workforce expected each year (Fiji CPO 1985, 28). Given annual productivity growth of around 1.5 percent, such labor force growth (of 2.4 percent annually) implied that a growth of about 4 percent in GDP was necessary just to hold the line on the unemployment rate (Bienefeld 1984, ix).

Another continuing challenge was the familiar one of accelerating productive Fijian participation in the modern economy, as opposed to unproductive participation through membership of the urban unemployment pool. Unfortunately, the 1986 census volume on economic characteristics

of the Fiji population has not been published, precluding detailed comparisons of the situations in 1970 and 1986. There is no doubt, however, that beyond employment in the public service, little had been achieved by way of getting greater Fijian representation in commercial and professional economic activity, despite preferential development bank financing of budding Fijian entrepreneurs and the reservation of 50 percent of tertiary education scholarships for Fijians (Cole and Hughes 1988, 22–23; Lal 1988, 15–16). At base this was because the contradiction between the demands of neotradition and modernity identified by Nayacakalou remained unresolved. As a prominent Alliance politician, Ratu David Toganivalu, observed: “The single most important problem is a Fijian’s mental attitude and approach to business. He starts with a great liability in that he has a cultural heritage that is not really conducive to frugality and material acquisition” (quoted in Lal 1988, 17). Cultural change cannot be engineered overnight. The Labour Party blamed the chiefs for keeping commoners cocooned in the communal system while reaping the benefits of their own involvement in the modern economy (Robertson and Tamanisau 1988, 32–34).

After sixteen years of Alliance government rule, the nation still faced the same development challenges it had faced at independence—to grow, to provide employment, and to accelerate Fijian integration into the cash economy so that rising aspirations could be met. This is only to say that development was an ongoing process; it is not to imply that no progress had been made. Average real income had increased at an annual compound rate of 2 percent in the period 1970 to 1986 (from data in Cole and Hughes 1988, 94). In other words, the size of the national cake had increased by 88 percent, permitting a 36 percent increase in the size of the average slice despite a 38 percent rise in population. The share of the cake for private consumption had increased to 60 percent. Water and power supplies, transport, and communications had been improved. Advances had been made in the provision of education, health, and housing. Yet growth had been sluggish since the late seventies, leaving real income per person in 1986 just 6 percent above the 1977 level, and the unemployment rate had gone up. As Ratu Mara observed in the final Alliance election broadcast of 3 April 1987, “The economy must grow. . . . If not, the cake will not be bigger and the many needs—the growing needs will not be met” (quoted in Lal 1988, 154).

In this respect, the immediate outlook was mildly encouraging. In the

first quarter of 1987 sugar export revenue was up enormously. Gold revenue was up, and so were gross tourism receipts as a result of a 9 percent increase in visitors who stayed longer and spent more than in the previous year. The government's budget position was improving. The inflation rate seemed to have stabilized at a low level. Interest rates had fallen; and though building and construction activity was down, net imports of machinery and transport equipment were up 66 percent (RBF 1987*b*). Even so, and despite expectations of continued buoyancy, the Reserve Bank forecast, perhaps conservatively, an annual expansion in real GDP of only 1.4 percent.

For some economists, who think in terms of a dichotomy or even a conflict between state and market, such slow growth was only to be expected. "Fiji is a heavily protected and regulated economy . . . it is quite clear that the sluggish growth of the late 1970s and 1980s in substantial degree resulted from the intensity of regulation and the resulting burdens of the private sector" (Cole and Hughes 1988, 34). "Fiji's economic development philosophy and macroeconomic management style has [*sic*] been essentially statist . . . past economic management . . . laid the basis for a relatively poor economic performance" (Kasper, Bennett, and Blandy 1988, 27, 32). "Most importantly, the rampant interventionism by the visible hand of the bureaucracy has emotionalized and politicized economic life and stifled economic growth" (Kasper 1989, 10). Without wishing to deny them any relevance, these are ideologically driven arguments based on the application of a universalist market-economy model that, by itself, is bound to generate simplistic and unconvincing stories. In theory and in practice governments can, through strategic intervention in situations where the market gives the wrong signals, raise the rate of growth above what it would otherwise have been, and ensure achievement of objectives other than faster growth. Such intervention can include the fostering of better markets. Though in Fiji some intervention was costly and counter-productive, particularly the creation of an inefficient protection system to encourage an extremely small manufacturing sector, on balance it seems to me to have made a positive contribution, primarily through the provision of public goods and infrastructure and the promotion of saving and investment. In any case, it is well established that growth and fluctuations in small, isolated island economies are heavily influenced by the terms of trade and supply-side disturbances, which is not to imply they are simply passive victims of changes in the economic and natural worlds. Recent

analysis confirms the importance of terms of trade shocks as far as Fiji's business cycle is concerned (Cozier 1986, 186), while output trends are best explained by terms of trade and investment trends, the latter in turn reflecting international factors as well as domestic political and economic uncertainties.

It is difficult if not impossible to establish the reasons for success or failure. Critics of planning and other forms of state intervention will assert that they cause any recorded slow growth and that any fast growth occurs in spite of them. Supporters of state involvement will assert that growth would have been slower without intervention, and that fast growth occurs because of it. Both groups will confidently predict future economic performance on the basis of their preferred model. Thus Kasper and colleagues have no hesitation in proceeding from the observation that the "socialist" Labour-National Federation Coalition was even more interventionist than the Alliance to the conclusion that therefore it would have worsened economic performance (Kasper, Bennett, and Blandy 1988, 4; Cole and Hughes 1988, 6). In fact, aside from the possibility that some intervention might promote development, by the time the Coalition won office on 12 April 1987, Labour's ill-defined policies of undoubted radical intent had been watered down (Lal 1988, 29). "The policy set out in the governor-general's address at the opening of parliament on Monday 11 May . . . was not far from being Alliance policy" (Scarr 1988, 58). The conduct of government in itself would have been a sobering learning experience. What might have been in store we shall never know, for the new parliament did not see out the week.

THE ECONOMIC CONSEQUENCES OF COLONEL RABUKA'S COUP

In the weeks following the 14 May coup, Fiji's economy was hit hard by the flight of financial and human capital, a virtual cessation of foreign investment, a collapse of tourism, temporary trade union bans on trade and travel from Australia and New Zealand, and a halt to the sugar harvest. The resultant balance of payments crisis necessitated draconian macroeconomic policy measures that added to the unavoidable, but unequally shared, hardship. Then, when it appeared that there was a chance of establishing a government of national unity, a second coup occurred on 25 September and worsened the economic reversal by confirming the demise of democracy and introducing a fundamental uncertainty over the stabil-

ity and quality of political leadership. Official, probably conservative and perhaps unreliable, estimates are that average real income fell 8.4 percent in 1987 (Table 1). Unofficial guesses put the figure closer to 13 percent (Kasper, Bennett, and Blandy 1988, 5). More worrying was the probability that irreversible damage had been done to long-term development prospects through chronic erosion of the economy's physical and human capital base. Real investment had fallen 42 percent (Browne and Scott 1989, 47, 49), and the educated, skilled, and entrepreneurial were leaving in their hundreds.

A detailed discussion of events in 1987 is to be found elsewhere (Knapman 1988a), but the essential facts of the postcoup economic decline bear repeating. Sugar production, also affected by a severe drought in the second half of the year, was down 20 percent on the record 1986 level and would have been down by another 8 percent but for a rise in the sugar : cane ratio (RBF 1988, 20). Supplementary exports of 1986 sugar stocks plus a recovery in the world sugar price generated a damage-containing 17 percent rise in foreign-currency export value (Browne and Scott 1989, 56). Tourist arrivals were 26 percent down on the 1986 level despite ultralow package deals offered in the wake of the first coup, causing a 23 percent fall in gross tourism earnings for the year, which in turn contributed to a 26 percent fall in building and construction activity (RBF 1988, 37, 40). Net tourism receipts were down by half, since not only did foreigners stay away, but also more Fiji residents found the idea of an overseas holiday attractive. Net private sector unrequited transfers on the balance of payments current account were four times the 1986 level due to increased emigration and overseas remittances, while aid cuts caused a 25 percent drop in net public sector inflows. The net outflow on capital account was F\$58 million, over half from the private sector. Overall, the balance of payments deficit in 1987 was F\$40 million, compared with a surplus of F\$39 million in 1986 (RBF 1988, 89). Measured in Special Drawing Rights (the IMF unit of account), the respective figures were 54.7 million (deficit) and 35.2 million (Browne and Scott 1989, 55).

This was the year-end result, despite a 33 percent devaluation of the Fiji dollar and the adoption of restrictive monetary and exchange control policies aimed at containing the rundown in foreign exchange reserves and the consequent pressures for creation of domestic credit. During 1987 the Reserve Bank of Fiji raised its minimum lending rate from 8 percent to 11 percent, ceased automatic commercial bank access to its rediscount facil-

ity, removed interest-rate ceilings, suspended export finance at subsidized rates, and imposed tougher penalty rates on banks using its credit. Ceilings on commercial bank loans and advances were also introduced to further restrict credit, but were not mandatory (RBF 1988, 53–56; Siwatibau 1988). The money supply growth rate fell markedly from 14 percent in May to 4 percent in December (CES, July 1988), and commercial bank maximum lending rates reached 24.5 percent (Browne and Scott 1989, 54). Reinforcing all this were the devaluations of June and October, and a (hopefully temporary) tightening of exchange controls on emigration transfers, travel allowances, gift and dividend remittances, advance payments of imports, and repayments of offshore loans. Overseas portfolio investment by residents was stopped.

Not all demands for credit could be refused, however, least of all those emanating from the military government. With revenue from trade and income taxes falling, and the army more than doubling its size from 2000, the government's operating balance moved from a F\$13 million surplus at the end of March to a F\$13 million deficit at the end of June—on its way to an unprecedented 1987 level of F\$53 million. The total deficit for the year increased from a budgeted F\$86 million to F\$109 million, and would have been much worse but for a drastic F\$37 million cut in capital expenditure, and September cuts in civil service and military wages and salaries of 15 and 20 percent, respectively (RBF 1987*b*, 1987*c*, 1988). The fact remained that a widening deficit had to be financed during a liquidity crisis. As the former governor of the Reserve Bank observed, normally keen international bankers "were keeping their distance" (Siwatibau 1988, 21), and domestic demand from government securities, however high-yielding they had become, had dried up. This left the Reserve Bank in its usual, but now much bigger, role of "obligatory residual buyer of Fiji government securities" (Luckett 1987, 105). In effect printing money, the Reserve Bank bought most of the F\$36.4 million in government securities issued in 1987, and from its short term advance facility provided most of the F\$34.7 million in cash and deposits used by the government. A further F\$30 million was raised through private bond placements with the Fiji National Provident Fund, leaving F\$8 million in overseas loans—primarily from multilateral aid agencies—to make up the financing of the overall deficit. Thus, a forced expansion in Reserve Bank credit to the military government more than offset the effect of falling foreign reserves on the monetary base of the banking system (RBF 1988, 56, 80). However, the net F\$7 million

expansion in the base had a reduced multiplier effect because of an increase in the public's propensity to hold cash in times of political and economic uncertainty.

By the end of 1987 monetary restriction, devaluation, and mostly non-military expenditure cuts had assisted in the restoration of external balance (Siwatibau 1988, 22). But of necessity the assistance worsened the recession. Between May and December close to 7000 people lost wage and salary employment in the private sector, primarily in wholesale and retail trade, restaurants and hotels, building and construction, and transport and communications. More than one-third of those retaining jobs were on lower pay, frequently along with shorter, more intensive working hours. There was an increase of nearly 4000 in government employment, but this reflected expansion of the army and concealed an exodus of skilled people from public service. Given that the ranks of the unemployed had swelled by over 7000, at least another 4000 people in the self-employed or new-entrant-to-the-workforce categories could not find jobs, bringing the official (conservative) estimate of the unemployment rate to 10.2 percent (RBF 1988, 50). The psychological and social costs of such rises in unemployment are well established and were evident in available data. Robberies more than doubled, stimulating the conspicuous growth of the security services industry. Violence against women increased. In Suva, hundreds of families were added to the list of those seeking help from St Vincent de Paul and the Bayly clinic. The Social Welfare Department was turning away families seeking the destitute allowance of F\$18-40 per month (Bain 1988, 29-30). For those who did receive the allowance, the real assistance it provided was being undermined by an acceleration of the inflation rate: in December, the all-items consumer price index was up 9.5 percent on the level of the previous year's end, and the food price index was up 13.4 percent (RBF 1988, 45).

Additional to the unemployment, underemployment, and pay cuts was the general decline in health, education, and other services that resulted from financial stringency and acceleration of the brain drain. Emigration of Indo-Fijians proceeded at an average annual rate of 1800 from 1971 to 1984 and in the early eighties constituted 83 percent of all emigration. Most of those leaving were young, in a professional, managerial or technical occupation, and bound for North America, Australia, or New Zealand. One estimate suggested that one in every six skilled Indo-Fijians working in Fiji in the early seventies was working in Canada at the end of

the decade (Connell 1987, 21-24). After the coups the steady stream became a torrent that, significantly, was fed by a new stream of skilled Fijian emigrants. In mid-1988 it was reported that more than 100 doctors, up to 500 out of 6000 schoolteachers, almost half the country's 150 lawyers, one-third of the accountants, and many other skilled people had left Fiji (*Islands Business*, June 1988). By the end of 1987 the public sector had lost 41 permanent secretaries and other senior officers among a total of 600 departures, compared with 255 in 1986 (Scarr 1988, 137). Altogether, during the five months of August to December, 2561 Fiji citizens departed the country, of whom 2126 were Indo-Fijian (RBF 1987c). Combined with budget cuts, such drains inevitably meant deterioration in services. In the health sector, the loss of doctors, nurses and other support staff, rising costs, and limited availability of some medicines seriously restricted curative work and "severely compromised" preventive and primary health care programs (Mitchell 1988, 78). In education, teacher shortages were "particularly acute" in rural secondary schools and seriously affected Fijian students (Baba 1988, 13).

The year 1988 saw further economic decline as capital and people continued to leave Fiji, investors generally remained hesitant, and tourist arrivals failed to grow (Fleeton and Dorrance 1988, 5-6). Real GDP is officially estimated to have fallen by 2.5 percent, but this seems too low in view of the fact that the 1988 budget forecast was for a 6.5 percent decline, which itself was plausibly judged to be half of the likely outcome by visiting economists (Kasper, Bennett, and Blandy 1988, 11-14). The unemployment rate was approaching 20 percent while the inflation rate reached 11 percent. And, as indicated in revised budget estimates, the government's fiscal position worsened: the overall deficit of F\$122.7 million was 13 percent up on the 1987 level, largely reflecting a further fall in income tax and trade tax revenues, together with a 65 percent rise in debt service expenditure. Capital expenditure was up a little because F\$14 million in cash aid was expected from old donors like Australia and new major donors like France in particular, who were prepared to lend money. One-quarter of the financing of the overall deficit was to come from foreign loans, leaving F\$91.5 million to be borrowed domestically (RBF 1988, 80-84). This raised a Latin American-style specter of an indebted government putting pressure on the Reserve Bank to print money, thereby exacerbating balance of payments and inflation problems and adding to the risk of a devaluation-inflation spiral.

The specter only loomed larger when, on 13 December 1988, the oligarchy Rabuka restored to power presented its 1989 budget. Total planned government spending was reported as F\$539 million, up 19 percent on the 1988 revised estimate. Capital expenditure was up 43 percent, and current expenditure up 16 percent. Nominal civil servant salaries were increased 15 percent (*PIM*, Jan 1989). Customs duties on vehicles and parts, clothing, food, and other goods were slashed, an export tax on timber was abolished, and no new taxes were introduced. Yet it was expected that the total budget deficit would be close to the 1988 level (Fleeton and Dorrance 1988, 13). For the required 19 percent increase in revenue, the government was pinning its hopes on a forecast growth rate in real GDP of 3.5 percent, or about 11.5 percent in nominal terms, given expected inflation of 8 percent. The implied elasticity of revenue with respect to nominal GDP was an implausibly high 1.65 (cf. Collins 1987, 26), which suggests greater reliance on aid grants. In any case, the debt growth generated by borrowing another F\$122.7 million will be serious enough—and will be worse if there is no economic turnaround. The remaining task of this paper is to scrutinize Rabuka's October 1987 claim that the economic crisis would only be short-term (*SMH*, 8 Oct 1987).

FUTURE ECONOMIC POLICIES AND PROSPECTS

Fiji's development challenges of the eighties and beyond were daunting enough without the political instability and economic collapse engendered by the military coups. Although growth at 4 percent was needed just to hold the line on the unemployment rate, the 1986–1990 development plan suggested that anything less than 5 percent implied “a worsening of the general social and economic conditions” (Fiji CPO 1985, 14). From 1989, after two years of negative growth, it would take at least four years of real GDP growth at 5 percent annually just to return average income to the pre-coup level. What are the prospects of achieving such growth?

According to the economists who attribute the slow growth of the immediate past to “rampant interventionism,” if a statist development philosophy prevents growth, its removal permits it.

The reforms we have in mind to launch Fiji into a scenario of recovery, prosperity and stability have three major components: a guarantee of civil rights and economic freedoms, not so much by declaration and decree as by clear,

consistent government actions and policies in support of such rights and freedoms; a comprehensive, rapid repeal of regulations governing work, commerce, international trade and payments, saving and enterprise; and a slimming down of the presently large government by reducing its functions and by privatising many government entities. (Kasper, Bennett, and Blandy 1988, 63)

Put this package in place and a newly tapped reservoir of enterprising individuals will do the rest, investing in new, leading export industries like garment and furniture manufacture. Use of a highly dubious growth model suggests that in the period 1986 to 2010 an annual GDP growth of 6.5 percent and a tripling of average income are possible.

Unfortunately, there are several reasons why the fast-growth scenario is utopian. First, even if the reforms were implemented, it is far from clear that rapid growth would follow almost automatically. The government has made positive contributions to past development, and it is not self-evident that a future reduction of its functions would on balance be growth-promoting (though this is not to deny that there may be considerable room for improving public sector efficiency). Similarly, and more important, it is not obvious either that a sufficient surge of entrepreneurial spirit would occur, or that adequate opportunities exist, for a dream of 6 percent growth to come true. While there may be scope for export diversification, the manufacturing sector—at 12 percent of GDP—is too small to exert more than a limited influence on the growth rate of the economy as a whole, even if it expanded rapidly. This is clear from an examination of Table 2, which shows the target sectoral growth rates for an overall target of 5 percent growth in GDP during 1986 to 1990: agriculture is optimistically expected to grow at 5.5 percent against the actual previous plan average of 3.4 percent, due to rapid growth in production of sugar, timber, fish, cocoa, and tropical fruits; tourism is expected to grow at 6.3 percent; and manufacturing growth is projected at 6.2 percent against an actual previous plan average of 3.6 percent (Fiji CPO 1985, 14–16). To add another 1.5 percentage points to the overall growth rate, the nonsugar manufacturing sector would have to expand at over 21 percent annually.

Anyway, the growth rates required of agriculture and tourism in order to realize 5 percent GDP growth seem unachievable. Extension of sugarcane cultivation has reached its limits; cane transportation is a serious constraint necessitating constant maintenance of tramlines, locomotives, and trucks; the sugar : cane ratio has been on a downward trend; and farm productivity has been falling as farmers with insecure tenure mine

Table 2. Projected Sectoral Rate of Growth in Terms of Gross Value Added at Factor Cost, 1985-1990

	Gross Value Added (F\$ million 1985 prices)		Growth Rate %
	1985	1990	
Agriculture, forestry, fishing			
Crops			
Sugarcane	51.6	74.2	7.5
Other crops	37.5	53.3	7.3
Livestock	13.7	17.4	4.9
Fishing	15.5	22.3	7.5
Forestry	11.2	16.7	8.4
Subsistence	72.4	80.0	2.0
Mining and quarrying	10.3	16.9	10.4
Manufacturing			
Sugar	25.1	36.7	7.9
Other food, drink, and tobacco	48.2	67.4	6.9
Other manufacturing	75.4	96.5	5.0
Electricity, gas, water	24.4	31.9	5.5
Construction	90.2	115.7	5.1
Trade	229.2	293.2	5.0
Transport and communications	114.8	143.2	4.5
Finance, insurance, and real estate & business services	94.2	129.5	6.6
Community and other services	328.3	390.2	3.5
TOTAL	1,242.0	1,585.1	5.0

Source: Fiji Central Planning Office 1985, 14.

the land. These difficulties will intensify despite the once-for-all fillip from devaluation. In tourism the conspicuous activity is the sale of existing enterprises to overseas buyers like Japan's Electronic and Industrial Enterprises, not new investment; several airlines still choose to overfly the expensive Nadi airport (Cole and Hughes 1988, 87); and package holidays can be riskier than in the days when Fiji was "the way the world should be"—tourists are "known to have been raped" (Scarr 1988, 87). Of course international economic developments could be kind to the historically leading sectors, but the outlook for 1989–90 is one of world economic slowdown. Long-term success is likely to hinge on a now-diminished ability to carve larger niches in competitive markets and to improve intersectoral linkages through encouraging greater inputs from agriculture into tourism.

Even if rapid growth were achieved as a result of successful implementation of the proposed reforms, there would have to be concern over the sustainability of the growth process. The fast-growth scenario implies that distribution will take care of itself, presumably further down the track. But although distributional conflict may be easier to control when the size of the cake is getting bigger, the market system necessarily implies inequalities; in the Fiji case, where values, customs, and institutions have constrained involvement in commercial activity, it would inevitably follow that in unfettered markets—including, it is recommended, one for land—Fijians would be set at a relative disadvantage to Indo-Fijians. The growth process could then undermine itself through the ethnic disharmony it would create. It is precisely this problem, this difficult growth-distribution trade-off, which has plagued policymakers down the years and which, unsolved, now provides fuel for those fanning the fires of racial hatred.

Of related and overriding importance is the second reason to assess the fast-growth scenario as utopian—on its own terms. The postcoup government of Fiji has not established, and is not likely to establish, the political preconditions for a return of confidence; it has shown itself to be more interventionist than the chiefly-aristocratic predecessor of which it is a resurrected form, a practicer of the clumsiest forms of "positive" discrimination, and only a selective user of free-market rhetoric and policies. There is no homage to Locke and Adam Smith in Suva's present government buildings, and there will be none in the planned new US\$1.8 million parliament building (*IB*, Jan 1989).

Though the Singapore-style Internal Security Decree of June 1988 was dropped in October of that year, soldiers still may arrest without warrant; freedom of movement and association, and freedom of expression and information are restricted; and insecurity remains the dominant factor in Indo-Fijian and some Fijian and part-European lives. The new constitution promised for the end of 1990 will not remove this insecurity, enshrining Christianity as a state religion and disenfranchising Indo-Fijians, urban Fijians, and, arguably, commoner Fijians as it does. Nor does it guarantee the political stability helpful to growth. Most Indo-Fijians and Fijians may be compelled to live with nondemocratic government, however reluctantly and warily in the former case. But with Indo-Fijians "taken out of the political equation" (Saffu 1989), and the looming departures of Ratus Mara and Ganilau from the political arena, there is room for Fijian conflict over control of the state to surface—between commoners and chiefs, westerners and easterners, and individual chiefs. There is also the possibility still of armed resistance from an Indo-Fijian minority, and a prospect of multiracial trade union versus state clashes. In short, future political stability cannot be taken for granted.

On the government intervention front, discrimination became "legal" with the Fiji Service Commissions and Public Service (Amendment) Decree of 1987, which required that all public service departmental heads be Fijian, and that at least 50 percent of all other grades be staffed by Fijians and Rotumans (*AFR*, 30 Nov 1988; Scarr 1988, 137). The setting of a floor like this ensures a higher figure will be achieved in practice, and gives precise meaning to Rabuka's stated intention to "chop out all the inefficient [read Indo-Fijian] civil servants" (Dean and Ritova 1988, 14). It also sends a signal to the private sector that has already been picked up: "All new recruits of one multi-national corporate bank branch in Suva are ethnic Fijian" (Naidu 1988, 9). The message to Fijians is clear: at least for a lucky few, ethnicity will be rewarded rather than merit acquired with the special assistance of more sensible affirmative action programs. The message to Indo-Fijians is equally clear: you are not wanted. The response will be to leave if possible.

Intervention was extended at the end of 1988 in the form of a Nine-Point Plan that aims to achieve one-third Fijian ownership of the corporate sector by the year 2000, through achieving minimum ownership targets in "selected resource-based industries," and reserving unspecified industries for Fijians exclusively. The required funds are to come from a

Fijian holding company drawing on an A\$17 million interest-free government loan and from a Fijians-only unit trust (*SMH*, 21 Nov 1988). Changes of ownership are not new investment, however; and plans like this are likely to discourage Indo-Fijian, European, and overseas investors without encouraging Fijian entrepreneurship, if the Malaysian experience is anything to go by (Fleeton and Dorrance 1988, 5; Kasper, Bennett, and Blandy 1988, 157–161; *Economist*, 11 Mar 1989). Indeed, well-connected Fijian politicians and civil servants will probably be the main beneficiaries, not budding entrepreneurs, farmers, or workers. (Parallels with Malawian civil servants owning tobacco plantations run by South African managers come to mind.)

Other inefficient interventions include the use of the Army Auxiliary to usurp the intermediary role. In defiance of economic logic, this is supposed to raise prices to producers and lower them to consumers at no cost. Further, Rabuka envisages an Auxiliary involvement in other commercial enterprises, including production of chopsticks for export to Taiwan (*IB*, Aug 1988). Indeed, he sees an Indonesian-style “Army-controlled economy, for the time being, until we have recovered” (Dean and Ritova 1988, 128). Significantly, he went on to note “we are working on a 10-year plan.”

The major evidence pointing to a superficially contradictory free-market stance is the desperately deregulatory tax free zone policy, popular in Marcos’ Philippines, whereby the government grants companies 13 years’ holiday from the 37 percent company tax rate, tariff-free importation of raw materials and plant, preferential energy charges, restriction-free overseas staff recruitment, freedom from minimum wage legislation, and freedom to repatriate profits—provided they export at least 95 percent of output. Allegedly, 76 companies were approved up to late 1988, but 27 were local companies in business anyway, and only 11 of the 49 new companies from overseas were actually operating (Fleeton and Dorrance 1988, 5). The overseas companies are likely to be footloose outfits that are attracted by low wages and have to pay taxes at home if they do not pay in Fiji, while the established local companies are clearly being subsidized by the granting of tax-free status. In either case there is a loss to government revenue. Such subsidies also distort investment decisions by discriminating against businesses that may be efficient but do not qualify as zoneworthy, as has been pointed out by the Fiji Employers’ Consultative Association (*PIM*, Dec 1988). Nobody seems to have calculated the domestic resource cost of earning foreign exchange by providing women and night-shift-

working men in the zones with a job that transforms an unemployment problem into a poverty problem. In terms of the impact on overall growth, it has already been shown that simple arithmetic says tax free zones cannot be the economy's salvation, a conclusion reinforced by international experience, which suggests that they "generally have not been successful in promoting long-term investment and growth" (Fleeton and Dorrance 1988, 5).

Finally, there are signs that some public enterprises may be privatized. This is not the place for a detailed discussion of pros and cons, but two pertinent observations can be made. First, as I have argued elsewhere (Knapman 1988b, 57), "there is no theoretical or empirical foundation for universal prescriptions either in favour of or against privatisation. In terms of economic efficiency, type of ownership matters less than whether or not market structure and the associated regulatory environment encourage competition, and what the quality of the management response is." Second, and related, competition is often not encouraged because privatization can actually be a fiscal expedient: governments wishing to raise revenue through asset sales have a vested interest in selling at the highest possible price, and achieve this by effectively guaranteeing continuation after the sale of any monopoly power. The fact that in practice prices may be set too low, providing windfall gains to buyers, only serves to confirm the suspicion that the government is acting in the private rather than the public interest. This seems a likely outcome in the Fiji case, where the fiscal balance is clearly precarious, and where the ruling elite is being wooed by Japanese big business. Privatization will be a fire sale benefiting foreigners.

One year after the first coup, a senior and internationally respected ex-servant of the Fiji government wrote: "The outstanding issue for Fiji in 1988 and beyond is the rebuilding of confidence. This process will depend upon moderate and sensible political developments and upon the re-establishment of a democratic system of government in which all sections of the community feel comfortable" (Siwatibau 1988, 23). Regrettably, since this was written there have been no signs that the political preconditions for a restoration of confidence are being established. Instead, the military-backed regime has shown its determination to walk away from the complex but recognizable parliamentary democracy of the past—in the direction of oligarchy, racial discrimination, and forms of interventionism with an adverse effect on economic performance. In consequence, the flow of

capital and skilled people from Fiji has continued, and is likely to continue. Combined with the government's budgetary difficulties, this undermines growth prospects for the foreseeable future. Aid in the form of grants, loans, and technical assistance from expensive expatriates will fill some of the gaps, but it will prop up a government that is a major cause of the development difficulties confronting the country, and therefore will be antidevelopment.

Sadly, there is a consensus on Fiji's future economic prospects in the absence of confidence. Early in 1988 I wrote that "Fiji is well down a familiar Third World path of repression, comparative economic stagnation and rising unemployment" (Knapman 1988, 188). Cole and Hughes end their monograph with the sentence: "Fiji will become a poor country" (1988, 87). Kasper, Bennett, and Blandy describe a scenario of decay and emigration that "will probably produce a result similar to the shrinking of living standards in Burma after 1948, Ghana since 1960, or Tanzania, with occasional flashes of Sri Lanka- or Israel-style tension" (1988, 60). This is one of the occasions when one hopes that the forecasts are wrong.

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